

Challenges to Providing Affordable Housing in Nigeria

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Introduction

Housing is one of the most basic of human needs. Provision of houses through the creation of mortgages is taken for granted in developed countries; however, it remains a major challenge in developing countries, especially in sub-Saharan Africa.

All governments in Nigeria since independence highlighted housing as a major priority.

Unfortunately for over 47 years of its independence, Nigeria is yet to develop a vibrant mortgage market and houses continue to be provided through the tortuous traditional method of buying land and building over some years, which could be an individual's entire life time. In many cases such buildings are left uncompleted or individuals have to deplete their entire life savings in order to build a home.

One of the major housing policy initiatives was the Policy on Affordable Housing that was initiated in 1979 by the Shehu Shagari Administration. The policy though laudable was unable to meet the nation's housing needs because it was based on the unsustainable tenet that houses will be provided by government (this remains the anomaly that we must resolve). The implementation of the 2002 housing policy reforms was a promising beginning, but a lot remains to be done.

In a recent news report on the Nigerian Housing Sector aired on African Independent Television (AIT), it was stated that between 1973 and 2006, the Federal Housing Authority (FHA) built only 30,000 housing units nationwide. According to Mr. Tunde Ipinmosho of the Federal Housing Authority (FHA), the current housing deficit is about 12 million homes. If we take the current population of 140 million Nigerians as reported by the National Population Commission after last year's census exercise and assume 30 percent of the population as working adults we have 42 million estimated working adults; assuming about 45 percent or 18.9 million of the working adults qualify for mortgage loans, and assume an average house final selling price at about Naira 2.8 million for a 2-bedroom flat, the possible size of the mortgage market is close to Naira 53 trillion.

Looking at the statistics we see that there are tremendous opportunities in the Nigerian housing sector waiting to be tapped. We should note that the government alone cannot fill the housing gap. In order to fill the gap we would have to leverage on the resources available in the private sector, while also encouraging foreign investment (in short government has no business building houses). Government (federal and the sub-national governments) should focus on providing a favourable investment climate, infrastructure, and mortgage insurance to first time home buyers and low-to middle income families. We must however, note that there are challenges to harnessing the huge potentials inherent in Nigeria's housing sector, and invariably providing affordable housing in Nigeria.

1. Legislation

The Land Use Act of 1978 which vests all land in the government is an obstacle to making land available for housing development. It is heart warming to note that His Excellency President Umar Yar'adua stated during the first few days of his administration that the Land Use Act will be amended to make land transactions easier and make land available for all who want to genuinely invest in the country. I urge the National Assembly and the 36 state governors including their various state legislatures to support the President in the planned land reforms.

Nine (9) housing related reform bills were presented to the last legislature unfortunately, the bills were not passed before the end of their tenure. Two additional bills on Securitization and Foreclosure are expected to be added to the initial nine (9) bills. I would like to appeal to the current legislature to pass the bills without further delay.

Though we talk of huge potentials in the Nigerian market, we should note that a difficult investment climate where laws to protect the sanctity of contracts are far from adequate hampers private sector participation and foreign investment.

2. Registering Property

According to the World Bank's report "Doing Business in 2007 - How to Reform", Nigeria's reforms have led to a reduction in the time required to complete the process of property registration from 274 to 80 days, but a lot still needs to be done because it takes only 1 day in some other countries such as Norway and Singapore. We should however note that part of the reduction in time is likely as a result of improvements in property registration which has been implemented in Abuja and in Lagos as well. In fact the "Doing Business" indication of 80 days is based on a test case of property registration in Lagos. I urge other state governments to replicate the improvements achieved in the Abuja Geographic Information System (AGIS) and Lagos State in their various states. Investors are comfortable in environments where registration is automated and procedures are minimal, and will be glad to invest in such places.

Automation though important, should be accompanied by changes in work culture in government registries. The time taken to register property must be substantially reduced. The current time taken is definitely unacceptable if we want to attract private investment.

The fees paid to register property in Nigeria are extremely high and have some non-transparent components. High fees add to the cost of houses and usually take such houses out of the reach of people in the lower income bracket. We must devise ways of reducing fees paid by families at the lower strata of the income ladder probably by exempting such families from paying fees or instituting a tiered system to make such fees affordable.

The procedures required to register properties in Nigeria are numerous and presents many opportunities for corruption. The report states that 16 procedures are required to register property in Nigeria while in countries such as Norway and Singapore only 1 procedure is required.

3. Risk Sharing

Unfortunately in Nigeria there is no mechanism for risk sharing that will encourage banks and other financial institutions to extend mortgage loans to people at the lower income level. Due to the absence of a credit information database that financial institutions provide information to and can get the credit history of all individuals from, Nigerian financial institutions settle for lending to the rich.

A way out of this dilemma will be for government to provide guarantees in the form of mortgage insurance to lenders for loans granted to first time buyers with no credit history and low-to middle income families once such mortgage loans meet prescribed underwriting standards. In the event of

default the government indemnifies the lenders to a prescribed level.

The present situation we have in Nigeria is similar to what was prevalent in the U.S. until the Roosevelt administration (1933 through 1945) established the Federal Housing Administration (FHA) to provide insurance against mortgage defaults for lenders. This endeavour was taken by both the United States FHA and the lenders and today the U.S housing finance system is used as the model for most emerging mortgage markets. We should start thinking of re-organizing the Nigerian FHA into a government sponsored mortgage insurance institution that will provide this service. My personal opinion is that the Nigerian FHA should not be saddled with the responsibility of building houses because this can be done by the private sector if the enabling environment is created. Such insurance gives mortgage lenders some level of comfort and will encourage them to extend the loans for longer periods to low-to middle income families.

To also provide liquidity, such insured mortgages may be securitized, that is, pooled by the FMBN and sold in the domestic capital market to interested investors.

4. Absence of a National Credit Database

A nationwide credit database that can provide credit information of all individuals that enjoy financial services in any form is not available. Though I have read in the newspapers that one is about to be created with 9 local banks partnering with Dunn and Bradstreet, I believe that it is a first step in the right direction, but all the banks and other financial institutions must be encouraged to participate and share information freely. The behavioural tendency to hoard information should be discouraged. Such database will in no small measure assist lenders in making their lending decisions. This is something the regulators in the financial services industry must start thinking about.

5. Stable Macroeconomic Environment

A stable macroeconomic environment is necessary to providing affordable housing. Lenders, investors, and borrowers prefer a stable economy where decisions can be taken without any apprehension. Inflation should be kept at manageable levels (preferably single digits), interest rates must tend downwards, and other macro variables should be stable. As inflation and interest rates decline, banks and pension funds will be encouraged to look less toward government securities and more towards the private sector to invest their assets. Thus, mortgages and mortgage-based investments would stand to benefit if the macroeconomic environment can continue to improve. We should however note that the risk of fiscal expansion is still here with us and I encourage cooperation between the fiscal and monetary authorities in sustaining a stable macroeconomic environment. We also need to urge governments at the lower tiers of government to curb fiscal expansion. The planned enactment of both the Public Procurement and Fiscal Responsibility Acts in the 36 states of the federation gladdens my heart.

6. Knowledge Gap

Some call it lack of capacity, but I prefer to call it knowledge gap. The reality is that there is a shortage of skilled manpower that can take the mortgage industry to the next level. Capacity has not been built over the years because the mortgage sector did not really exist and the conditions were not favourable for long-term lending as it would have led to asset-liability mismatch. We need to build capacity in all aspects of the mortgage market and acquire the latest knowledge. We can

achieve this by partnering with established institutions in the developed countries such as the International Finance Corporation (IFC), the International Housing Finance Program at the University of Pennsylvania's Wharton Business School etc. Moreover, when he announced the African Mortgage Market Initiative in Abuja in 2003, U.S. President George Bush offered his country's assistance in developing Africa's mortgage markets. In the context of the appropriate market reforms in Nigeria, such assistance will be available from U.S. institutions such as the Overseas Private Investment Corporation (OPIC).

7. Dealing with Licenses

According to the Doing Business in 2007 report, in getting a licence such as construction permits or approvals in Nigeria it takes 16 procedures which take an average of 465 days. There are usually delays in receiving permits for construction. The procedures are complex and expensive. This encourages illegal construction as well as squatter settlements with its attendant health and environmental issues as we can see all around our cities in Nigeria such as Ijora Badiya and Makoko in Lagos; Nyanya, Mararaba and some satellite towns in Abuja to name a few. Reforming licensing requirements in Nigeria – particularly by reducing the processing time as well as decreasing the costs – would not only increase the size of the formal construction sector but also reduce the costs of housing construction, thereby increasing the availability of homes to a broader segment of Nigerian society.

8. Taxes

One of the greatest barriers to large-scale provision of affordable housing is the tax burden. The imposition of value added tax (VAT) at various levels of the housing-development process adds significant costs as much as 35 percent to the cost of a house, even before titling fees and stamp duties are taken into consideration. Tax holidays, deferrals or tax exemptions on materials or home sales, or similar tax-related provisions have been used successfully in other countries for low- and moderate-income families. These incentives can be used successfully in attracting investors into the housing sector. Other countries have proven that when they reduce the tax burden on housing, the number of transactions increases, and total housing related fiscal revenues either increase or remain the same.

9. Enforcing Contracts

According to the Doing Business in 2007 report, there are 23 procedures taking an average of 457 days and account for 27 percent of the claims to be received in enforcing contracts in Nigeria. The absence of a foreclosure law has been cited by some investors and local banks as the reason for not investing in the housing sector. Though the incidence of foreclosure in most countries (especially with regard to low-and middle-income families) is generally quite low, it is important for investors to know that they can take possession of their collateral and recover their loans as quickly as possible. Investors can even live with a lengthy foreclosure process, but they must have confidence that the laws will be enforced fairly and in a transparent manner. Lagos state is establishing special courts for this and should be applauded. Evidence from other countries has shown that implementing “non-judicial foreclosure” used solely for mortgage contracts is a necessity for the establishment of a secondary market.

10. High Cost of Building Materials

A key factor that has led to the high construction cost in Nigeria has been the restriction on the importation of cement, which by account constitutes about 40 percent of building materials, if not more. While Nigeria does not produce enough cement domestically to meet demand, imports have been restricted and subject to a process of quota allocation. This has led to sharp increases in the price of cement.

However, there are signs of positive change in government policy on cement imports, such as the reopening last September of the Ibeto Cement Factory, an importing entity. In order to bring down materials costs and stimulate construction, as well as make housing more affordable to the Nigerian population, the government should continue its reconsideration of restrictions on the importation of cement and other building materials. Another alternative we could explore in the long-run is to conduct more research on how we can use local materials such as clay and other local building materials.

11. Infrastructure

Another major challenge to providing affordable housing is the lack of primary infrastructure such as roads, water, electricity etc, which accounts for about 30 percent of housing costs. In most cases developers have to provide the infrastructure which invariably increases the cost of the houses they produce thus making such houses unaffordable. The three tiers of government should not shy away from their responsibility of providing primary infrastructure if we must achieve our goal of providing affordable housing. The infrastructure projects could be financed by issuing bonds and will also provide a future income stream for government through municipal fees that will be paid by home owners.

Conclusion

The goal of providing affordable housing can be achieved, but the necessary ingredients have to be put in place. Investors can work in difficult environments in the short-term if there is convincing evidence that reforms that will improve the investment climate will be implemented as quickly as possible. The 11 housing reform legislations must be passed without further delay. We must keep working at improving the investment climate, and this can be achieved by just studying what other countries have done and implementing international best practices. In doing this we must not miss the goal of ensuring macroeconomic stability, such as keeping inflation and interest rates down.

I will also like to reiterate the importance of risk sharing. It is important that Government provides mortgage insurance to first time home buyers who do not have credit history and to low-to middle-income families in order to achieve our aim of providing affordable housing. Like I earlier said it is an anomaly for government to take on the responsibility of building houses because experience has shown that it is unsustainable in the long-run. The Nigerian Federal Housing Authority (FHA) could be restructured to become the government sponsored entity that will be responsible for providing mortgage insurance while the Federal Mortgage Bank of Nigeria (FMBN) can pool the insured mortgages and sell them in the capital market to provide liquidity.

Lastly reconsideration of the restriction on the importation on building materials should continue, and we must conduct more research on how we can use local building materials. I also urge the government to think seriously about providing primary infrastructure because it should not be a developer's responsibility if we are serious about providing affordable housing. The present method of funding infrastructure projects through the annual budgets only results in having uncompleted projects when revenues fall short of expectation as has been the experience in nation's history. The capital market can be a good source of providing long-term funds through the issuance of bonds and other financial instruments to finance infrastructure projects.

Thank you!